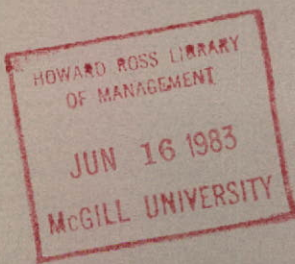


Annual Report 1981 C

La Luz Mines Limited



La Luz

Board of Directors

Robert E. Fasken, Oakville, Ontario
Mining Executive, Chairman, Camflo Mines Limited

K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor

William J. McCormick, Oakville, Ontario
Executive

Brian K. Meikle, Mississauga, Ontario
Geologist, Vice President, Operations, Camflo Mines Limited

Robert M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

Officers

Robert M. Smith — *President*

John C. Charles — *Executive Vice-President*

Robert E. Fasken — *Vice President*

Brian K. Meikle — *Vice President, Operations*

C. Bruce Burton — *Vice President, Finance*

William R. Robertson — *Secretary*

Kenneth E. Elrick — *Treasurer*

Transfer Agent and Registrar

Crown Trust Company
Toronto, Canada

Auditors

Thorne Riddell
Toronto, Canada

Bankers

The Royal Bank of Canada
Toronto, Canada

Executive and Head Office

Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Canada M5J 2J1

Annual Meeting of Shareholders

June 8, 1982, 11:00 a.m.
Turner Room, Chelsea Inn
Toronto, Canada

Share Listing

The Toronto Stock Exchange
Share Symbol: LAZ

Directors' Report to the Shareholders

The Directors submit herewith the Annual Report of the Corporation including the audited financial statements for the year ended December 31, 1981.

The Corporation's main activity continues to be the operation of two open pit coal mines in Ohio with minor interests in oil and gas production in Alberta.

FINANCIAL

The consolidated net loss for the twelve months to December 31, 1981 was \$11,332,303* or \$7.17 per share after an extraordinary gain of \$413,309 compared with a net loss of \$3,261,118 or \$2.06 per share after an extraordinary gain of \$1,104,584 during the twelve month period ending December 31, 1980.

The Corporation's coal revenue for the year ended December 31, 1981 was \$27,060,409 compared with its share of coal revenue of \$16,354,785 for the same period in 1980. The increase resulted from the inclusion of 100% of the tonnage sold in 1981 compared with 50% in 1980 due to the acquisition of Gilbert Fuel, the partner in the coal enterprises, late in 1980. Total production from both mines amounted to 828,000 tons in 1981 compared with 1,132,000 tons in 1980. This decline was primarily the result of a two and one half month industry wide strike by the United Mine Workers of America at both mines. Average revenue per ton sold increased in 1981 to \$32.68 from \$28.90 in 1980.

Other revenues during the twelve months ended December 31, 1981 included \$147,163 of petroleum and natural gas revenue compared with \$219,424 in 1980. During the year the Corporation sold its remaining shares of Amax Inc. for a gain of \$413,309.

The operations of both mines were severely impaired in the first half of 1981 by the mine workers' strike. During the second half, significant management changes were implemented, primarily at the Muskingum operation. The impact of these changes in the short term resulted in

higher costs as mining sequences were altered, responsibilities changed and other associated adjustments occurred. The beneficial impact of these changes became evident in the first quarter of 1982.

Continued high interest costs experienced throughout 1981 significantly contributed to the Corporation's losses. Interest expense increased by over \$2.5 million to \$7,691,000 compared with total interest expense associated with the coal operations of \$5,245,000 in 1980.

C.M.L. Inc., a subsidiary of Camflo Mines Limited, the parent of La Luz, continued to be the primary source of financing in 1981. Over \$13.7 million was provided during the year by C.M.L. Inc.

In the second quarter of 1981, the Corporation made a \$5,000,000 provision in its accounts in anticipation of a loss on the disposition of the Crown City property. Negotiations with the prospective purchaser were more protracted than originally anticipated and at the present time no firm offer has been received. Accordingly this provision has been reversed.

The Corporation is continuing its efforts to improve its financial condition and to this end management is carrying on discussions with all effected parties.

OPERATIONS

Crown City

The operation of the Crown City Mine continued to show marked improvement during 1981. The mine realized a profit of \$567,000 before interest notwithstanding a protracted strike of hourly production workers which began with the expiration of the three year industry-wide collective bargaining agreement with the United Mine Workers of America on March 27, 1981, and ended with the execution of a new 40 month agreement on June 6, 1981.

It is encouraging to note that it was during the six month period after the strike that the Mine operated at a profit after bank interest costs. In the first

*(All dollars in this report are in U.S. currency.)

quarter of 1982, during which period operations are usually adversely affected by weather conditions, improved operationing results were sustained. The mine operated on a break even basis during this period producing an average of 41,000 tons per month. The overall outlook for 1982 has been tempered by a projected 9% cut-back in the tonnage which the mine's sole customer will purchase during the year. This reduction in the customer's coal requirements results from a severe drop in the demand for electrical power caused by the current industrial recession. Efforts are being made to reduce the impact of this tonnage cut-back by the implementation of cost saving measures and deferral of proposed capital expenditures.

Muskingum Mine

The operating results of the Muskingum Mine for 1981 continued to be disappointing. In addition to the industry-wide strike and the continuing effect of high interest rates, the mine was adversely affected by tonnage production deficiencies resulting from the occurrence of unexpected faults and old underground mine workings. These factors resulted in an excessively high ratio of overburden removed to tons produced. Engineering and drilling efforts have been intensified to minimize such problems in the future. In addition, operational and management changes were effected at the mine during the second half of the year.

During the first quarter of 1982 the output from the mine averaged over 54,000 tons per month and in March 1982, the mine realized a modest profit, after bank interest.

A study, jointly funded with the mine's customer, to explore possible avenues for improving the long-term quantity and quality of coal to be produced from the Muskingum Mine reserves, was completed in the first quarter of 1982. This study is being evaluated and may result in revisions to the coal sales agreement.

The contracted output of Muskingum will be reduced in 1982 by a proposed 11% cut-back in

tonnage resulting from the sole customer's reduction in coal consumption. The adverse impact of this reduction in production will be offset in part by an interim price increase which will be in effect during the balance of the year. Efforts will be made to reduce further the impact of this tonnage loss by reduction of operating costs and postponement of projected capital expenditures.

OUTLOOK

Current economic conditions in the area have resulted in a significant reduction in overall power consumption with an attendant reduction in required coal deliveries to the power plants. This situation will continue at least to the end of 1982 and possibly into the first quarter of 1983. Although major operating improvements have occurred in the last half of 1981 and in the first quarter of 1982, further improvements are necessary before the operation is in an acceptable financial position. Every effort will be made to protect and capitalize on the long term potential of your Corporation's coal assets.

Shareholders' attention is called to the precarious financial position of the Corporation and the fact that Camflo Mines Limited has advised La Luz Mines Limited that it is unwilling to have C.M.L. Inc. advance further funds or guarantee additional financing to support ongoing operations. At the present time the mines are generating sufficient funds to maintain operations, however, any major set-back in the ability to meet its coal delivery schedules or fulfill its obligations will have an immediate effect on the Corporation's financial stability. Reference is made to note 2 of the consolidated financial statements.

On behalf of the Board of Directors,



R. M. Smith,
President.

May 5, 1982

La Luz Mines Limited

Consolidated Balance Sheet

as at December 31, 1981

(Expressed in U.S. Dollars)

Assets	1981	1980
Current assets		
Cash	\$ 96,113	\$ 489,373
Accounts receivable	3,613,512	3,140,308
Inventories (note 3)	1,598,718	1,448,988
Prepaid expenses	398,563	345,629
	<u>5,706,906</u>	<u>5,424,298</u>
Investments (note 4)	<u>1,237,804</u>	<u>1,342,464</u>
Fixed assets , at cost less accumulated depreciation depletion and amortization (note 5)	<u>30,817,815</u>	<u>31,955,614</u>
Other assets		
Preproduction expenditures, less amortization	1,860,553	2,173,418
Petroleum and natural gas interests, less depletion	247,568	325,729
Advance royalty payments (note 6)	1,586,216	669,855
Other	437,439	430,872
	<u>4,131,776</u>	<u>3,599,874</u>
	<u>\$ 41,894,301</u>	<u>\$ 42,322,250</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	\$ 6,359,517	\$ 6,273,696
Advance payable to parent company	221,285	92,147
Current portion of long term liabilities	5,238,010	4,352,398
	<u>11,818,812</u>	<u>10,718,241</u>
Long term liabilities (note 8)	<u>43,441,510</u>	<u>33,637,727</u>
Capital stock and deficit		
Capital stock		
Authorized — 3,000,000 shares without par value		
Issued — 1,580,759 shares	3,372,829	3,372,829
Deficit	<u>16,738,850</u>	<u>5,406,547</u>
	<u>(13,366,021)</u>	<u>(2,033,718)</u>
	<u>\$ 41,894,301</u>	<u>\$ 42,322,250</u>

Future operations (note 2)

Contingent liabilities and commitments (note 9)

Approved by the Board


Director


Director

Consolidated Statement of Operations

Year ended December 31, 1981

(Expressed in U.S. Dollars)

	1981	1980
Revenue		
Coal	\$ 27,060,409	\$ 16,354,785
Petroleum and natural gas	147,163	219,424
	<u>27,207,572</u>	<u>16,574,209</u>
Operating and administrative expenses	27,819,865	15,880,653
Interest	7,691,254	3,040,070
Depreciation, depletion and amortization	3,629,791	2,193,091
	<u>39,140,910</u>	<u>21,113,814</u>
Loss before the undernoted	(11,933,338)	(4,539,605)
Investment and other income	187,726	173,903
Loss before extraordinary item	(11,745,612)	(4,365,702)
Gain on sale of investment	413,309	1,104,584
Loss for the year	\$ (11,332,303)	\$ (3,261,118)
Loss per share		
Loss before extraordinary item	\$ (7.43)	\$ (2.76)
Loss for the year	\$ (7.17)	\$ (2.06)

Consolidated Statement of Deficit

Year ended December 31, 1981

(Expressed in U.S. Dollars)

	1981	1980
Deficit at beginning of year	\$ 5,406,547	\$ 2,145,429
Loss for the year	<u>11,332,303</u>	<u>3,261,118</u>
Deficit at end of year	\$ 16,738,850	\$ 5,406,547

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981

(Expressed in U.S. Dollars)

	1981	1980
Working capital derived from		
Proceeds on sale of		
Investment	\$ 517,969	\$ 1,426,417
Fixed assets		43,810
Advances from affiliated company	13,725,738	6,717,583
Increase in long term liabilities		4,210,059
Other assets	285,618	
	<u>14,529,325</u>	<u>12,397,869</u>
Working capital applied to		
Operations	8,115,821	2,172,611
Additions to fixed assets	2,350,425	1,874,292
Retirement of long term liabilities	3,964,681	3,593,185
Advance royalty payments	916,361	
Acquisition of subsidiary including working capital deficiency assumed		6,097,238
Other assets, net		173,681
	<u>15,347,288</u>	<u>13,911,007</u>
Decrease in working capital position	817,963	1,513,138
Working capital deficiency at beginning of year	5,293,943	3,780,805
Working capital deficiency at end of year	\$ 6,111,906	\$ 5,293,943

AUDITORS' REPORT

To the Shareholders of
La Luz Mines Limited

We have examined the consolidated balance sheet of La Luz Mines Limited as at December 31, 1981 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
April 30, 1982

Thorne Riddell
Chartered Accountants

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1981
(Expressed in U.S. Dollars)

The company is incorporated in the Province of Ontario under the Business Corporations Act and is a public company listed on The Toronto Stock Exchange. As at December 31, 1981 approximately 58% of the issued shares of the company were owned by Camflo Mines Limited. The principal activities of the company consist of coal mining operations in the State of Ohio, U.S.A. through its wholly owned subsidiary La Luz Ohio, Inc. operating under the names of Crown City Mining Company and Muskingum Mining Company (referred to collectively herein as the coal enterprises).

1. Summary of Significant Accounting Policies

- (a) Basis of consolidation
These consolidated financial statements include the accounts of the company and its wholly owned U.S. subsidiaries, Panaminas Incorporated and La Luz Ohio, Inc. All material intercompany transactions have been eliminated
- (b) Inventories
Mine operating supplies and coal are recorded at cost.
- (c) Depreciation, depletion and amortization
 - (i) Coal
The company uses the unit of production method to compute depletion on coal lands and depreciation and amortization on the major portion of the property, buildings and equipment and preproduction expenditures.
 - (ii) Petroleum and natural gas
The company follows the full cost method of accounting for its petroleum and natural gas interests whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.
- (d) Basis of translation of Canadian currency
Canadian currency has been translated as follows:
 - (i) Current assets and liabilities, at exchange rates prevailing at the period end.
 - (ii) All other assets and liabilities, at exchange rates prevailing at the date the assets were acquired or the liabilities incurred.
 - (iii) Revenues and expenses, at the average exchange rate for the period except for depreciation, depletion and amortization

which are based on the cost of assets as translated.

- (iv) Unrealized foreign exchange gains and losses are included in operations.

- (e) Reclamation costs
Reclamation costs are accrued in the accounts based on the anticipated costs of completing the restoration of acreage affected by mining operations as determined by management.

2. Future Operations

The company has incurred a significant operating loss during the year ended December 31, 1981, has a serious working capital deficiency, was in default under the terms of the coal lease (see note 6) and has substantial amounts of debt due in the next fiscal period. The future of the company will depend upon its ability to obtain adequate financing, cure its lease default and attain profitable operations. These financial statements have been prepared on the basis that the company will continue to operate throughout its next fiscal period subsequent to December 31, 1981 as a going concern. A failure to continue as a going concern would then require that the net assets of the company be reflected on a liquidation basis which would be significantly less than the amounts recorded herein on a going concern basis.

3. Inventories

	1981	1980
Mine operating supplies	\$ 1,222,649	\$ 1,372,874
Coal	376,069	76,114
	<u>\$ 1,598,718</u>	<u>\$ 1,448,988</u>

4. Investments

	1981	1980
Shares, at cost		
Amax, Inc.		\$ 104,660
Camflo Mines Limited	\$ 1,237,804	1,237,804
	<u>\$ 1,237,804</u>	<u>\$ 1,342,464</u>

The quoted market value of the company's holdings as at December 31, 1981 was \$1,645,000. At April 30, 1982, the quoted market value of these holdings was \$695,000.

5. Fixed Assets

	1981	1980
Land	\$ 8,913,068	\$ 8,915,441
Buildings	1,621,104	1,606,737
Machinery and equipment	31,290,645	28,450,334
Washing and preparation plant	2,400,026	2,417,487
Equipment under capital leases	384,035	384,035
Vehicles	795,836	951,610
Furniture and fixtures	73,713	66,979
	<u>45,478,427</u>	<u>42,792,623</u>
Less accumulated depreciation, depletion and amortization	14,660,612	10,837,009
	<u>\$30,817,815</u>	<u>\$31,955,614</u>

6. Advance Royalty Payments

Certain coal mining rights have been leased in consideration for a royalty payment of \$3.51 per ton on the greater of 700,000 tons per year or the coal produced and shipped in the year. The lease is for a term of twenty years ending October 31, 1998 subject to the lessee's right to surrender the lease at any earlier time when all economically mineable coal has been mined or minimum royalties on 14,000,000 tons have been paid. The lease may be renewed for successive three year periods. Royalties paid in excess of coal produced and shipped in the year can be applied against royalties due in a subsequent lease year on production in excess of the annual minimum tonnage requirements.

Under the terms of the coal lease, the lessee is required to maintain at least \$2,000,000 working capital (as defined) and make monthly minimum royalty payments. As at December 31, 1981 and subsequent thereto, the lessee is in default of the working capital requirement. The coal operations are not expected to generate sufficient funds during 1982 to correct this condition. In the event that this default continues for a period of 60 days after a request by the lessor for correction, the lessor may exercise its right to declare a forfeit of all the rights, title and interest of the lessee to the leased property and take possession to the complete exclusion of the lessee. Should the lessor exercise these rights, the lessee remains liable for any shortfall in the minimum royalty not recovered by the lessor from any re-let of the property. In accordance with the provisions of the lease, the lessor has the same rights if a demand for payment of the monthly minimum royalty obligation is not satisfied within five days.

7. Accounts Payable and Accrued Liabilities

	1981	1980
Trade and other	\$ 4,399,325	\$ 3,553,678
Related companies	60,192	56,145
Accrued reclamation costs	1,900,000	2,663,873
	<u>\$ 6,359,517</u>	<u>\$ 6,273,696</u>

8. Long Term Liabilities

	1981	1980
Notes payable	\$10,484,575	\$12,584,782
Mortgage payable	5,894,000	6,682,000
Capital leases	156,565	347,426
Loans and notes payable, affiliated company	32,101,654	18,375,917
Other	42,726	
	<u>48,679,520</u>	<u>37,990,125</u>
Less instalments due within one year	5,238,010	4,352,398
	<u>\$43,441,510</u>	<u>\$33,637,727</u>

Instalments due in each of the next five years are approximately as follows:

1982	\$5,238,000
1983	3,938,000
1984	3,780,000
1985	2,736,000
1986	1,343,000

Notes payable

1981

1980

Notes payable, secured by certain equipment of the coal enterprises, bearing interest at rates varying from 1½% to 2½% above U.S. prime rate maturing approximately as follows:
 1982, \$2,238,000;
 1983, \$1,895,000;
 1984, \$1,429,000;
 1985, \$ 701,000;
 1986, \$1,250,000 **\$ 7,512,825** \$ 9,316,032

Notes payable, secured by the coal washing plant and the same collateral securing the mortgage payable (see below) bearing interest at U.S. prime plus 2% and repayable in quarterly principal instalments of \$93,750 . **1,593,750** 1,968,750

Notes payable, unsecured, bearing interest at 6% maturing January 15, 1982, subsequently extended to December 31, 1982 **1,378,000** 1,300,000
\$10,484,575 \$12,584,782

Mortgage Payable

The mortgage payable bears interest at 2% above the lender's New York prime commercial rate payable monthly. Principal repayments of \$394,000 are to be made quarterly until January 1, 1985 at which time the entire unpaid balance becomes due. Principal repayments may be accelerated under certain conditions. The mortgage is secured by the company's investment in the coal enterprises including liens upon substantially all of their assets and a pledge of marketable securities. The company's parent has also guaranteed repayment of the loan.

In addition to the aforementioned payments, within 90 days after June 30, the coal enterprises must also make additional annual payments on principal in the amount of 80% of their cash flow as calculated in the loan agreement. Such additional payments shall be applied to principal in inverse order of maturity. As of December 31, 1981, no additional payments have been required.

Capital leases

Capital leases represent the present value of the net minimum lease payments, as at December 31, 1981, calculated at the lessor's implicit interest rates, which vary from 8½% to 11%. The leases are secured by a pledge of certain machinery and equipment.

Loans and notes payable, affiliated company

1981 1980

Loans payable,
secured by certain
of the company's
assets bearing
interest at U.S.
prime interest rate
plus 1½% maturing
January 31,
1986 **\$31,601,654** \$17,875,917

Notes payable,
unsecured,
maturing October
9, 1984, \$400,000;
January 29, 1985,
\$100,000. Interest
is payable at a rate
of 18% **500,000** 500,000
\$32,101,654 **\$18,375,917**

9. Contingent Liabilities and Commitments

(a) In consideration of the guarantee of the mortgage payable (note 8) and certain reclamation bonds (note 9(b)), the coal enterprises have agreed to pay a commitment fee to the parent company of \$.30 per ton on all coal mined and sold.

(b) As of December 31, 1981 the company has furnished surety bonds in the approximate amount of \$13,327,000 to the State of Ohio to ensure the restoration of land affected by strip mining.

10. Related Party Transactions

(a) Interest expense includes \$4,296,985 charged by related companies and operating costs include \$248,864 paid as commitment fees to the parent company, \$57,892 paid to a legal firm of which a director is a partner and certain administrative overheads allocated by related companies.
Investment and other income includes \$41,500 from the parent company.

(b) All of the company's coal revenues are derived from sales to an electric power utility located in the State of Ohio.

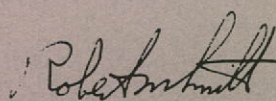
11. Income Taxes

The company and its subsidiaries have non-capital losses and other tax credits of approximately \$21,492,000 for which tax benefits were not recorded in the accounts. These losses and tax credits are available for carry forward to future years and are restricted to fiscal years not later than:

	Losses carried forward	Investment and new jobs tax credit
1984	\$ 108,000	
1985	859,000	
1986	277,000	
1989	352,000	\$ 99,000
1990	1,308,000	21,000
1991	2,222,000	11,000
1992	1,486,000	92,000
1993	1,911,000	235,000
1994	3,739,000	403,000
1995	6,046,000	116,000
1996	3,184,000	20,000
	<u>\$21,492,000</u>	<u>\$997,000</u>

MANAGEMENT REPORT

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.



R. M. Smith, President



C. B. Burton, V.P. Finance

